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No. 04-480

IN THE

Supreme Court of the United States

METRO-GOLDWYN-MAYER STUDIOS INC., *ET AL.*,
Petitioners,

v.

GROKSTER, LTD., *ET AL.*,
Respondents.

On Petition for a Writ of Certiorari to the United States Court of Appeals for the Ninth Circuit

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Respondents' contention that the Ninth Circuit should have the judiciary's last word on the critical questions raised in the petition fails at every level. The decision below is anything but a routine application of *Sony Corp. of America v. Universal City Studios, Inc.*, 464 U.S. 417 (1984) ("*Sony-Betamax*"). To the contrary, the Ninth Circuit has rewritten the law of secondary copyright liability, turning it into a blueprint for exploitation that perversely discourages on-line distributors from respecting the intellectual property of others, threatens legitimate on-line innovators, and breeds a culture of contempt for the rights of copyright owners. Nothing in *Sony-Betamax* supports such a result.

That the Ninth Circuit radically rewrote secondary liability law is evident from the biting criticism leveled by the Register of Copyrights, as well as the many amicus briefs filed by the creative community, the entire spectrum of copyright owners, legitimate on-line services, 41 State Attorneys General, and academics. The Seventh Circuit's diametrically opposed reading of *Sony-Betamax*, which respondents cannot explain away, confirms the need for review. *See In re Aimster Copyright Litig.*, 334 F.3d 643 (7th Cir. 2003), *cert. denied*, 124 S. Ct. 1069 (2004).

Thus, to avoid review, respondents resort to a plea that only Congress can rectify the judicial confusion and marketplace harm the Ninth Circuit has caused. Brief in Opposition 29 ("Opp.") (conceding "the infringing uses are certainly a cause for concern" and suggesting Congress should solve the problem). But it is quintessentially the function of this Court to resolve important, unsettled questions of federal law that divide the circuits, particularly when the question is how one of this Court's significant precedents applies in new circumstances. Given the immense harms being inflicted daily on petitioners – comprising virtually the entire recording, songwriting, music publishing, and motion picture communities – there is no justification for deferring review.

I. The Question Presented Is Important and Unsettled.

Grokster and StreamCast do not dispute that they intentionally set out to capture Napster's infringing users; that those users are engaged in unauthorized distribution of copyrighted works on a massive scale, which is far removed from fair use; that at least 90% of the activity on their services is infringing; that their business model depends on maximizing that infringement; that they blinded themselves to the infringement and disabled mechanisms that could limit it; and that they could adopt measures to block infringement without affecting distribution of noninfringing material. These critical facts differentiate this case from *Sony-Betamax* and demonstrate that the legal issues raised in the petition are squarely presented.

Respondents nevertheless contend that the Ninth Circuit's decision is a routine application of *Sony-Betamax*, turning on specific factual "findings" that render this case unworthy of review. What respondents describe as the Ninth Circuit's "findings," however, are the product of the novel legal standards the court adopted. As the Register of Copyrights observed, those standards reflect "an unnecessarily cramped view of existing secondary liability doctrines, creating a much narrower test of 'knowledge,' 'material contribution,' and 'right and ability to control' than any case before." Statement of Marybeth Peters, Hr'g on S. 2560, S. Comm. on the Judiciary, at 13 (July 22, 2004); *see also* Law Prof. Amicus Br. 14-15 (describing opinion below as "baffling mishmash").[1]

[1] The Ninth Circuit's "finding" of no material contribution is *not* an "independent ground" for the decision below. *Contra* Opp. 23. It is an artifact of the court's holding that "material contribution" exists only when defendants fail to act on specific knowledge of specific infringement using the current features of the software as designed by defendants. *See* Pet. 21-24 (showing novelty of Ninth Circuit's standard).

Thus, contrary to respondents' assertions, the issue is not whether *Sony-Betamax* should be "overturned." Nothing in *Sony-Betamax* compelled the unprecedented and illogical standards the Ninth Circuit adopted below.

1. Grokster and StreamCast are flat wrong in their claim that *Sony-Betamax* applied a "mere capability" standard for commercially significant noninfringing uses and prohibited examination of the actual proportion of infringing and noninfringing uses. Opp. 20. As Judge Posner recognized, "[t]hat would be an extreme result, and one not envisioned by the *Sony* majority." *Aimster*, 334 F.3d at 651. It would also mean that most of *Sony-Betamax*'s legal analysis was superfluous. As respondents themselves emphasize, roughly 9% of Betamax use was *authorized* copying, which no one contended was infringing. Opp. 20 n.36. Had this Court adopted respondents' "mere capability" standard, that 9% would have established substantial noninfringing use. But the Court did not decide the case on that basis. The Court carefully analyzed the Betamax's *predominant* use – "unauthorized home time-shifting" – and concluded that it was fair use. 464 U.S. at 442. Only then did the Court reject secondary liability. *Id.* Thus, respondents' contention that the Court precluded examination of the "major use" of the Betamax, Opp. 20-21, 23, is not a colorable reading.

There is likewise no merit to respondents' assertion that the noninfringing uses cited by the Ninth Circuit were "substantial by any relevant metric." Opp. 22-23. The Ninth Circuit did not find "commercially significant" noninfringing uses in the sense *Sony-Betamax* intended – *i.e.*, a commercial market for the noninfringing uses of Grokster and StreamCast. Nor could it have, for respondents' business model "depends upon . . . infringement" to draw the audience their advertisers seek. Pet. App. 50a. Even accepting the Ninth Circuit's assumption that 10% of the use of Grokster

and StreamCast is noninfringing and its acknowledgment that 90% is infringing, *id.* at 12a n.10, this case squarely presents the question whether the noninfringing use is commercially significant. Far from answering that question, *Sony-Betamax* expressly reserved it. 464 U.S. at 442. If anything, the Court's refusal to rest its holding on the 9% of uses that were authorized indicates 10% noninfringing use is not enough.[2]

2. Even if commercially significant noninfringing uses were shown, *Sony-Betamax* does not shield respondents from liability on the very different facts here. *See* Pet. 19, 21-24.

Grokster and StreamCast do not take issue with the record evidence showing they could block infringing uses. Instead, they cite the *dissent* in *Sony-Betamax* to argue that separation of infringing and noninfringing uses might have been possible there, too. Opp. 24. But the *majority* did not even respond to that suggestion, because it was contrary to the district court's explicit finding of fact, after a full trial, that separation was not feasible. Pet. 18. Here, by contrast, the Ninth Circuit held that it was *irrelevant as a matter of*

[2] In addition, contrary to respondents' contention (Opp. 8), the summary judgment record does not establish that 10% of uses are noninfringing. The Ninth Circuit's assertion that there are "hundreds of thousands" of noninfringing uses (which respondents inflate to "millions," Opp. 6) was based solely on an improper negative inference from *petitioners'* empirical analysis showing that at least 90% of uses were infringing. Pet. App. 12a n.10. That in no way establishes the legitimacy of the remaining 10%. *See* Pet. 9 & n.7; Joint Excerpts of Record ("JER") 2004 (sworn declaration that "there was not enough information to form reasonable conclusions as to what those files even consisted of, and/or whether they were infringing or noninfringing"). Respondents have offered only individual examples, not quantitative evidence, of alleged noninfringing uses, which petitioners challenged. *See* JER 1027-28; JER 711; JER 7174-75. To the extent "the district court found it undisputed that the software distributed by each defendant was capable of substantial noninfringing uses," Pet. App. 10a, that conclusion was based on the court's minimalist "merely capable" standard, not the record evidence.

law that Grokster and StreamCast had disabled features that would have allowed them to block infringement and failed to employ available filtering technologies. The court simply missed the point that *Sony-Betamax*'s underlying concern with monopoly leveraging is not implicated where – as here – infringing uses can be eliminated while preserving noninfringing uses. *See* Pet. 22. Thus, this case squarely presents the question (unanswered by *Sony-Betamax*) whether a defendant that creates and operates a worldwide network for distributing infringing works can escape liability merely by disabling or avoiding available mechanisms that block infringement.

This case also differs from *Sony-Betamax* in that respondents maintain an ongoing relationship with the infringing users of their services. To obscure this reality, respondents falsely portray themselves as Internet Johnny Appleseeds, giving away software that lets networks spring up wholly independent of them. In truth, Grokster and StreamCast exploit their continuous connection with users to make millions from ongoing infringement by transmitting advertising to the computers of their users every time the users commit infringement over the services. *See* Pet. 4-5. Respondents' business model is utterly unlike that of one who merely sells a staple article of commerce.

3. Respondents mischaracterize *Sony-Betamax* as adopting a rule that invariably protects so-called "innovators" from copyright liability. *Sony-Betamax* held that secondary liability law "must strike a balance" that gives due consideration to "a copyright holder's legitimate demand for effective – not merely symbolic – protection of the statutory monopoly." 464 U.S. at 442. Ignoring that teaching, the decision below perversely encourages the adoption of designs that free-ride on copyrighted works and facilitate unfettered infringement instead of providing reasonable

protection for intellectual property.[3] It also thwarts legitimate innovation because – as Roxio and other on-line services point out in their *amicus* brief – legitimate services that must charge a fee to cover royalties cannot compete fairly with services that offer the same content for free. *Sony-Betamax* cannot be read to endorse such results. Indeed, respondents point to no case – until this one – in which a court adopted a "mere capability" standard or deemed irrelevant the ability to separate infringing from noninfringing uses – and *Aimster* expressly rejected those positions. Thus, respondents' claim of reliance on those novel legal rulings is meritless. Opp. 21-22.

II. A Genuine and Acknowledged Circuit Conflict Exists.

Respondents also fail in their effort to paint the Ninth Circuit's decision as "entirely consistent" with the Seventh Circuit's *Aimster* decision. Opp. 24. Although certiorari would be warranted even absent a circuit conflict (as in *Sony-Betamax*), the clear divergence between the Ninth and Seventh Circuits reinforces the need for review.

1. Tellingly, respondents avoid mentioning the Ninth Circuit's acknowledgment of the conflict over what constitutes "substantial noninfringing use." Pet. App. 11a n.9. Instead, they assert that the defendant in *Aimster* produced no evidence of even "potential noninfringing uses," Opp. 27, thereby failing to meet the "mere capability" standard. That is false. The Seventh Circuit presumed

[3] Respondents' own counsel emphasizes this perverse incentive in legal "primers" written for peer-to-peer services. He advises that, to avoid liability, operators should create "plausible deniability" by "choos[ing] an architecture that will convince a judge that . . . monitoring and control is impossible" – "[t]he key here is to let go of any control you may have over your users." Fred von Lohmann, *IAAL: Peer-to-Peer File Sharing and Copyright Law After Napster* (2001), *available at* http://www.gtamarketing.com/P2Panalyst/VonLohmann-article.html.

Aimster was capable of noninfringing uses: Judge Posner stated that "obviously [Aimster] *could* be" used "in noninfringing ways," 334 F.3d at 651 (emphasis in original), and the court listed five such potential uses, *id.* at 652-53. The *Aimster* decision was thus premised not on a lack of proof that Aimster was *capable* of noninfringing uses, but on the court's view that a "mere capability" test produces legal results "not envisaged by the *Sony* majority." *Id.* at 651.

2. The Seventh Circuit's reading of *Sony-Betamax* is directly at odds with the Ninth Circuit's on at least three other critical issues: whether a court must weigh infringing against noninfringing uses; whether self-imposed limitations (such as encryption) insulate a defendant from liability; and whether a court must balance the costs and benefits of preventing infringement before insulating a defendant from liability. Pet. 24-29.[4] Respondents try to dismiss these rulings as "dicta," Opp. 26, but they are alternative holdings. For example, on the question whether it would have been "disproportionately costly" for Aimster to block the infringing uses, the Seventh Circuit held that "Aimster failed to make that showing too." 334 F.3d at 653. The conflict is clear – and refutes respondents' assurances that *Sony-Betamax* compels the result below.

III. This Court, Not Congress, Should Decide the Question Presented.

There is no merit to respondents' plea to let Congress solve the massive problems the Ninth Circuit has created.

[4] Indeed, respondents' own arguments confirm the gulf between the Ninth and Seventh Circuits. Respondents chastise petitioners for advocating a balancing test, Opp. 2, 19 (quoting Pet. 24), but the language respondents twice quote from the petition is a description of the Seventh Circuit's standard "[u]nder *Aimster*," not petitioners' own. *See* Pet. 24.

1. The Ninth Circuit's decision throws the law of secondary copyright liability into disarray. It is the responsibility of this Court, not Congress, to interpret *Sony-Betamax*, resolve the circuit split, and say what the law of secondary liability is. *See Aimster*, 334 F.3d at 647 ("the Court must have the last word"). It would invert the appropriate relationship between the Court and Congress to allow the confusion spawned by the conflict between the Ninth Circuit and the Seventh Circuit to persist while Congress sorts through potential legislation.

2. Nor are respondents correct that Congress, rather than the courts, should take the first step to apply secondary liability rules to new technologies. Infringement is prohibited by statute, and for almost a century this Court has construed that statutory proscription as extending to secondary infringement under principles recognized "in virtually all areas of the law." *Sony-Betamax*, 464 U.S. at 435. Respondents cannot point to a single instance of Congress legislating *standards* for secondary copyright liability, because Congress has *always* left those standards to judicial elaboration.[5] And courts, in turn, have always applied principles of secondary liability to address novel efforts to profit from infringement.[6]

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[5] Congress has recognized these judicially elaborated standards for secondary infringement, first in the Copyright Act of 1976, *see* H.R. Rep. No. 94-1476, at 61 (1976), *reprinted in* 1976 U.S.C.C.A.N. 5659, 5674, and then in the Digital Millennium Copyright Act, which created several "safe-harbors" from secondary liability without defining the basic standards for that liability. 17 U.S.C. § 512(a)-(d).

[6] The fair use doctrine – a judicially created defense that Congress later codified but did not alter – presents a striking parallel. *See Sony-Betamax*, 464 U.S. at 447 n.29; *Campbell v. Acuff-Rose Music, Inc.*, 510 U.S. 569, 575-77 (1994). Some lower courts had misread this Court's application of the judicially developed fair use doctrine in *Sony-Betamax* as establishing a rigid rule that denied the defense to all commercial uses, no matter how transformative or productive. *See* 510 U.S. at 578-85. The Court did not hesitate to intervene again and correct the lower courts' misreading. *Id.* The same action is called for here.

Sony-Betamax is itself a prime example of the time-honored judicial function of refining the standards of secondary liability: the Court adapted aspects of the staple article doctrine from the Patent Act, despite substantial differences between copyright and patent law, in order to strike the balance between effective copyright protection and freedom in unrelated commerce. *Id.* at 440-42. Nothing in *Sony-Betamax* suggests that the judiciary should forbear from finding secondary liability whenever it confronts a new technology. Such a rule would amount to an abdication of the *judicial* duty *Sony-Betamax* recognized to strike a balance between the interests of copyright owners and the interests of those who engage in unrelated lines of commerce.

3. The speculative possibility of corrective legislation is no reason to deny review, as the Court recognized when it granted certiorari in *Sony-Betamax* despite the respondents' plea for denial in view of pending legislation. *See* Br. in Opp., *Sony Corp. of Am. v. Universal City Studios, Inc.*, No. 81-1687, at 10-11 (U.S. filed May 10, 1982) ("it seems clear from Congress' expeditious and serious consideration of the pending bills that such legislation is imminent"). Sponsoring the Inducing Infringement of Copyright bill in response to the "fundamentally flawed ruling" below, Senator Hatch reaffirmed that it is quintessentially the Court's function, not Congress's, to adapt and apply standards of secondary copyright liability. 150 Cong. Rec. S7189, S7189, S7191 (July 22, 2004). In any event, the failure of Congress to pass legislation this session, *see* Opp. 14-15, should not deprive copyright holders of their judicial remedies under existing law. *Sony-Betamax* emphasized this Court's duty to apply

the law as it exists, without speculating about possible future legislation. 464 U.S. at 456.

IV. Review Is Needed Now.

Respondents' arguments for deferring review while their systems continue to impose massive harm on petitioners are meritless. *First*, their claim that this appeal is "interlocutory," Opp. 15, ignores that the district court entered a partial *final* judgment under Fed. R. Civ. P. 54(b). The Ninth Circuit conclusively decided the legality of the current Grokster and StreamCast services and authorized respondents to facilitate and profit from millions of acts of infringement every day; no future district court proceedings can affect that final judgment.[7] *Second*, in suggesting that direct infringement suits are an adequate remedy, respondents fail to grasp that secondary liability exists precisely to protect copyrights in situations (like this one) in which it would be infeasible to sue millions of individual infringers directly. *See, e.g., Aimster*, 334 F.3d at 645. *Finally*, respondents' blithe assertion that "marketplace responses" might solve the problem cannot be taken seriously. Opp. 30. Respondents have little incentive to pay for what the Ninth Circuit allows them to distribute for free.

CONCLUSION

The petition for writ of certiorari should be granted.

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[7] Even if the Ninth Circuit's decision were not final, given the harm resulting from that decision and the presence here of all the relevant stakeholders, the need for immediate review would trump any prudential grounds for denying interlocutory review of a federal court decision.

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